

5 FAM 660 BENEFIT COST ANALYSIS (BCA)

(TL:IM-29; 02-04-2000)

5 FAM 661 PROJECT COST ANALYSIS

(TL:IM-29; 02-04-2000)

a. The benefit cost analysis (BCA) is a project development technique that will assist managers in making resource allocation decisions. It provides managers with several feasible alternatives and allows systematic evaluation to help make informed decisions. The BCA is an integral part of the system life cycle that starts in the project initiation phase, but must be updated throughout the development process to determine if the effort should continue.

b. Project managers must follow regulatory approval thresholds, apply the BCA process, and determine BCA pitfalls and limitations.

5 FAM 662 APPROVAL THRESHHOLDS

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OMB Circular A-11 and the Federal Acquisitions Regulations require that a BCA be included with the annual budget when an information technology initiative exceeds \$30M over the system life cycle, or exceeds \$10M in any one year. If life cycle cost is below \$10M, a simplified BCA is required (see 5 FAM 613, Definitions). In the Department of State, a BCA is required for development/integration/maintenance projects that exceed \$100,000. Managers must tailor the BCA effort to the size of the project.

5 FAM 663 THE BCA PROCESS

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Project managers must ensure that the BCA process is applied using six structured steps, which will result in consistent, reliable, and accurate findings. These elements form the basic structure for gathering costs and benefit source information.

(1) Determine Needs—State in clear and concise terms; remainder of process is based on this statement;

(2) Estimate Benefits—Identify and quantify (if possible) benefits for each alternative;

- (3) Estimate Costs—Provide cost estimates for the full life cycle;
- (4) Compare Alternatives—Describe comparison techniques;
- (5) Analyze Sensitivities—Determine if input variations will affect ranking of alternatives; and
- (6) Present Results—Prepare a formal BCA report.

5 FAM 664 BCA PITFALLS AND LIMITATIONS

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a. Project managers must be aware that although the BCA is a useful tool for project managers to assess feasible alternatives, some pitfalls and limitations exist. These pitfalls and limitations are relevant in terms of the following:

- (1) Budget—budget process will seldom result in cost estimates to equal actual budget;
- (2) Decision making—helps to determine most cost effective and beneficial means for deficiency, but is not the only deciding factor;
- (3) Benefit Analysis—do not confuse benefits and cost savings; and
- (4) Erroneous Estimates—consider the motives of source of estimates, i.e., political influences.

b. BCA pitfalls and limitations can be minimized when conclusions are applied in the real world.

5 FAM 665 THROUGH 669 UNASSIGNED